STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Illinois Bell Telephone Company	)	
	)	
Application for Review of Alternative Regulation Plan	))	**Docket No. 98-0252**
Illinois Bell Telephone Company	)	
	)	
Petition to Rebalance Illinois Bell Telephone Company's Carrier Access and Network Access Line Rates	)))	**Docket No. 98-0335**
Citizens Utility Board, People of the State of Illinois	))	**Docket No. 00-0764**
v.	)	
Illinois Bell Telephone Company	)	**(Consol.)**

DRAFT PROPOSED ORDER OF AMERITECH ILLINOIS

Louise A. Sunderland
Karl B. Anderson
Mark A. Kerber
Illinois Bell Telephone Company
225 West Randolph Street, Floor 25D
Chicago, Illinois 60606
(312) 727-6705
(312) 727-2928
(312) 727-7140

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DRAFT PROPOSED ORDER OF AMERITECH ILLINOIS

Illinois Bell Telephone Company ("Ameritech Illinois" or "the Company"), by its attorney, hereby submits its Draft Proposed Order in the above-captioned proceeding.

These proceedings were reopened to address a Joint Proposal submitted by Ameritech Illinois, the Citizens Utilities Board ("CUB"), the Illinois Attorney General (the "AG"), the Cook County State's Attorney's Office ("CCSAO"), and the City of Chicago (the "City") (collectively the "Governmental and Consumer Parties" or "GCI/City"). Under the Joint Proposal, Ameritech Illinois would issue a one-time credit in full satisfaction of Ameritech Illinois' obligation to flow through to customers 50% of the actual net merger savings achieved as a result of the SBC/Ameritech Merger. Order in Docket 98-0555 (the "Merger Order") adopted September 23, 1999.

This merger savings issue was also addressed in the initial proceedings in this docket. That testimony is discussed in the Final Post Exceptions Proposed Order ("Final PEPO" or

"FPEPO") issued on November 7, 2001. (FPEPO, pp. 92-94). In this Draft Proposed Order, Ameritech Illinois recommends that the "Commission Analysis and Conclusion" in the Final PEPO be replaced with a reference to the Joint Proposal and that a new section be added to the "Going Forward" adjustments section of the Final PEPO (Section V) to address the Joint Proposal. Necessary changes to the Final PEPO will be supplied in Exception format where appropriate.

I. MODIFICATIONS TO EXISTING MERGER SAVINGS SECTION OF FINAL PEPO (SECTION V, D)

The "Commission Analysis and Conclusion" to Section V, D of the Final PEPO addressing merger savings has been superceded by the Joint Proposal. (FPEPO, Section V, D, p. 94). Therefore, this discussion should be eliminated in its entirety and replaced with the following:

"Commission Observation

After the development of the record in this proceeding on merger savings, Ameritech Illinois and GCI/City filed a Motion to Reopen the Record to submit a Joint Proposal to resolve the merger savings issue. Further discussion of the Joint Proposal follows in another Section of this Order."

II. NEW SECTION TO ADDRESS JOINT PROPOSAL

A new subsection entitled "J. Joint Proposal" should be added to Section V of the Final PEPO to address the Joint Proposal. Ameritech Illinois' Proposed Order language follows:

J. Joint Proposal

On January 16, 2002, Ameritech Illinois, the Citizens Utility Board, the Illinois Attorney General, the Cook County State's Attorney's Office and the City of Chicago filed a Joint Motion to Reopen the Record in this proceeding to consider a proposal to resolve the merger savings issue. The Commission granted this Motion on January 29, 2002, and the Administrative Law Judges subsequently established a procedural schedule.

AI's and GCI/City's Proposal

AI and GCI/City filed testimony describing and supporting the Joint Proposal. Under the Joint Proposal, Ameritech Illinois' customers would be issued a one-time credit of $197 million. This bill credit will require an additional distribution of $26 million of applicable tax credits to eligible customers. AI states that this proposed credit is based on actual data through calendar year 2000, as well as preliminary actual data for calendar year 2001. AI notes that the credit reflects a higher level of savings than was anticipated in the pre-merger estimates submitted to the Commission in Docket 98-0555. These data were projected forward over the 2002-2004 period, and, again, the results exceeded pre-merger estimates. According to AI, this credit amount was then increased by an additional S50 million to reflect issues raised in the third-party audits of calendar year 1999 and 2000 savings data. To permit a one-time credit, total net merger savings over the 2001-2004 period were restated on a present value basis and 50% of this amount was allocated to ratepayers, consistent with the terms of the Merger Order. This results in the proposed $197 million credit.

AI explains that this credit amount would be apportioned between its residential, small business, interexchange carrier ("IXC") and competitive local exchange carrier ("CLEC") customer groups based on relative revenues booked by AI during calendar year 2001. Credits would be issued to retail consumers (i.e., residence customers) and small business customers (i.e., business customer locations with four lines and less) on a per-line basis. Credits would also be issued on a per-line basis to CLECs which resell AI's services to residential and small business customers with four lines and less. CLECS which purchase unbundled network elements ("UNEs") and IXCs would be issued credits based on each individual carrier's proportionate share of the total revenues attributable to their respective customer groups in 2001.

AI submitted a financial analysis of this proposal which detailed the credit amounts for each customer group. CLECs purchasing UNEs, interconnection, transport and termination services would receive approximately $6.9 million. Interexchange carriers would receive approximately $11.1 million. Since these customers do not incur taxes on wholesale services, there are no applicable tax credits. Eligible end users will receive approximately $178.9 million, an amount which consists of credits to residence and small business customers of $175.2 million and credits to CLECs which resell service to residence and small business customers of about $3.7 million. Based on the number of AI's network access lines as of December 31, 2001, eligible end users will receive $43.04 plus applicable tax credits, for a total of approximately $49.50 per access line. AI notes that the per-customer credit will be based on lines in service when the credit is issued and, therefore, these amounts are approximate. In addition, adoption of certain adjustments proposed by McLeodUSA will reduce these amounts slightly. AI further explains that it could take up to 60 days to issue the credit. Therefore, assuming that the Commission rules on this proposal in April and does not make changes that would require significant modifications to the Company's billing system, AI states that credits would likely be issued in the June time frame.

With the issuance of this credit, certain other requirements of the Merger Order become unnecessary. AI states that the Joint Proposal is intended to supercede the merger savings component of the annual Price Cap Filing and to constitute a permanent solution to the requirement that net merger savings be shared with customers, thus obviating the need for further regulatory proceedings to address this issue. In addition, AI notes that Condition (26) requires

Ameritech Illinois to track and report merger costs and savings on an annual basis, which are then subject to audit. As a result of the calendar year 2000 annual Price Cap Filing, the Commission initiated Docket 01-0128 to allow interested parties to review the 1999 audit findings. This proceeding is still pending. Under the Joint Proposal, and upon a Commission Order approving the Joint Proposal, AI explains that it would no longer be required to track and report merger costs and savings. No future audits would be required and the current proceedings in Docket 01-0128 would be terminated.

According to AI and GCI/City, the Joint Proposal provides significant benefits to consumers. It permits prompt resolution of an issue which has proven to be far more time-consuming and litigious than the Commission anticipated in 1999. They state that customers will receive the benefits to which they are entitled immediately, without waiting for the conclusion of more reporting cycles, more third-party audits, more audit review proceedings and a contested proceeding over permanent rate design. As Ms. TerKeurst testified on behalf of GCI/City:

> "The Joint Proposal . . . avoids the delay, expense, and uncertainty inherent in the current process. It provides consumers with a one-time lump sum distribution that is meaningful, amounting to approximately $43 plus applicable taxes, as described by Ameritech Illinois witness David W. Fritzlen. It replaces the cumbersome and difficult process of attempting to assess 'actual' merger savings. As a result, tracking of merger savings would no longer be required, and annual audits and the inevitable litigation over contested costs and savings would be avoided. Additionally, a permanent change to the alternative regulation mechanism in this docket would no longer be needed." (GCI/City Ex. 1.0 on Reopening, p. 6).

Staff's Position

The Commission Staff also recommends approval of the Joint Proposal. Staff argues that the Commission has the authority to modify the SBC/Ameritech Merger Order and should do so in this proceeding. Staff points out that several of the assumptions upon which the Commission based its merger savings allocations in the Merger Order have changed considerably. The Commission required that the PICC be eliminated and Ameritech Illinois' carrier access rates are now cost-based. Therefore, Staff states, the IXCs' portion of merger savings cannot be flowed through in the PICC and future cost-based access charges will implicitly include cost reductions associated with the merger. Staff also notes that all business services have now been reclassified as competitive and would not benefit from merger savings flowed through the Alternative Regulation Plan.

Staff testified that the $197 million credit constitutes a fair, reasonable and adequate resolution of the merger savings flow-through requirement in the Merger Order. Staff further noted that the amount of the credit is consistent with the amounts addressed by Staff previously; that tracking and accounting for merger savings has proved to be a resource-intensive activity, requiring extensive review of AI's records, yearly reviews by the Commission and associated costs to the Commission, AI, and other parties; and that adopting the Joint Proposal would reduce regulatory burdens, conserve the resources that would otherwise be expended in the annual audits and would materially simplify the annual price cap filing proceedings.

McLeodUSA's Position

AI explained that under the Joint Proposal, CLEC resellers will receive a per-line credit for their residence and small business (1-4 lines) customers that is equal to the credit AI will issue to its residence and small business (1-4 lines) customers. Because AI cannot readily determine from its records what proportion of resellers' business customers have one-to-four lines, AI proposed that the ratio of its one-to-four line customers to its total business customers (13%) be used as a reasonable proxy for the resellers' customer demographics.

McLeodUSA objected to the use of the 13% proxy as it applies to its operations. According to McLeodUSA, 43% of its business customers have one-to-four lines per location. McLeodUSA also objected on the grounds that this proxy failed to account for residence lines that are served by McLeodUSA over Centrex facilities, because all Centrex lines are classified in AI's systems as business lines. According to McLeodUSA, recognition of their residence Centrex lines would further increase their "business" lines eligible for a credit from 43% to 52%.

Joint CLECs' Position

The Joint CLECs agree that settling these proceedings could benefit all involved. The CLECs propose that the Joint Proposal be adopted with respect to issuance of the proposed one-time credit to residence and business customers, resellers and IXCs, but that it be modified for CLECs purchasing UNEs. The CLECs state that the Joint Proposal departs from the Commission's Merger Order with respect to the manner in which the CLECs receive their share of merger-related savings. The CLECs cite to the following portion of the Order in support of their position:

> It is the ruling of this Commission that the net merger-related savings should be allocated to Ameritech Illinois' customers as follows:
>
> (1) Carriers purchasing AI's UNEs, interconnection, and transport and termination services will benefit from merger-related savings through updated rates resulting from modification of its TELRIC, shared and common costs.
>
> (2) Once the share of the merger-related savings allocable to UNEs, interconnection, transport and termination purchasers have been identified, the remaining balance of savings will be allocated to interexchange, wholesale and retail customers. This will be done by dividing the remaining merger-related savings between IXCs on the one hand and end users (whether served via retail or wholesale) on the other, based on the relative gross revenues of each of these two groups. (Merger Order, p. 146).

Based on this discussion, the CLECs contend that purchasers of UNEs, interconnection and transport and termination services must benefit from merger-related savings through updated rates resulting from modification of AI's TELRIC, shared and common costs. The CLECs, therefore, urge the Commission to reduce the shared and common costs currently included in AI's rates for UNEs and interconnection-related services. The CLECs contend that AI's shared and common cost fixed allocator is high relative to other states. The CLECs state that their primary concern with the Joint Proposal is that it does not provide the CLEC community with an updated fixed shared and common cost allocator. The CLECs contend that a shared and common cost study recently filed in an Ameritech Indiana proceeding represents Ameritech's most recent post-merger proposal for a reasonable shared and common overhead allocator. The CLECs recommend that the Commission rely upon this study for purposes of implementing its Merger Order. For the first time in their Initial Brief, the CLECs alternatively contend that the Commission should adopt the Illinois-specific allocator which AI filed in response to Merger Condition (12), which was further adjusted by the CLECs to eliminate certain product support costs which the CLECs contend may have been double counted. This adjustment was described briefly in a footnote. As a third alternative, and again for the first time in their Initial Brief, the CLECs recommend that the Commission adopt Staff's shared and common cost factor that was presented in Docket 00-0700.

The CLECs further contend that there are positive demand elasticity and competitive impacts associated with reducing post-merger UNE rates, as opposed to a one-time credit. The CLECs argue that lower UNE prices mean that customers who were once only marginally attractive may now become profit-generating, competitive targets. In contrast, the CLECs contend that a lump-sum payment would not result in more reasonable UNE rates and would provide CLECs with less incentive for expansion based upon most business models.

The Joint CLECs further contend that the Commission should require AI to cap its UNE and interconnection service rates for five years. The CLECs argue that AI will realize merger-related savings not only in its overhead cost structure, but also in its cost structure generating direct TELRIC costs. The CLECs express concern that AI's updated cost studies will provide TELRIC results which exceed those currently supporting AI's approved UNE rates. The CLECs state that they do not wish to expend the time and resources to litigate new studies and wish certainty with respect to UNE pricing.

Alternatively, if the Commission approves a one-time credit, the CLECs propose that the credit allocation methodology reflect UNE revenue growth over the next couple of years. The CLECs argue that using 2001 revenues understates the CLECs' share because intrastate revenues attributed to CLECs are growing at a much higher annual rate than are revenues for any other customer group. Hence, the CLECs argue that more of the merger-related savings from later years would be due to the CLECs than to the other customer groups. Therefore, the CLECs propose to use separate growth trends for CLECs purchasing UNEs, IXCs, and end users, respectively. The CLECs assume that UNE revenues would grow at a rate equal to 100% per year, and that AI consumer revenues would stay relatively constant, despite the reductions experienced by AI in the recent past. Under the CLECs' approach, the CLECs' share of the credit almost triples, from $6.94 million to $19.9 million, the IXC share increases slightly from $11.13 million to $11.37 million, and the retail residence, business and resellers share declines from $178.93 to $165.10.

Finally, in their Initial Brief, the Joint CLECs support using McLeodUSA's 43% factor to determine the proportion of all resellers' business lines which are eligible for a credit.

Response of AI

AI does not object to using data specific to McLeodUSA to determine its residence and business lines eligible for a credit. With respect to other CLEC resellers which did not present data specific to their operations, AI states that there are two alternatives. In the absence of broader industry data, one alternative is to use the 13% factor for all resellers other than McLeodUSA. AI notes that resellers have different business strategies and make different decisions about which segment of the marketplace to target. AI contends that the fact that no other CLEC participating in this proceeding objected to the 13% factor suggests that McLeodUSA's situation may not be representative of the industry generally.

Alternatively, AI states that McLeodUSA's 43% factor could be used for all resellers. AI states that this would be simple to administer and would avoid any issue of disparate treatment. AI notes that use of this alternative approach would not significantly change the amount of the credit which would be issued to retail customers.

AI opposes the alternatives which would require it to seek company-specific data from resellers. AI states that these approaches are cumbersome and time-consuming, because there are over 30 resellers of business services to end users. AI points out that resellers may not want to provide this information to Ameritech Illinois on the grounds that it is proprietary and/or may not respond to inquiries in a timely manner, thus requiring a default factor option in any event. AI also cautions that basing the credit on reseller-specific information would likely delay the issuance of the credit to all customers to the August time frame. Since only a small number of resale lines are impacted by the change in assumptions from 13% to 43%, AI argues that the administrative costs and delay required to determine eligibility with more precision greatly outweigh the benefits.

AI opposes the Joint CLECs' proposal that its shared and common cost allocator be reduced in this proceeding. AI states that the Joint Proposal is not inconsistent with the Merger Order. AI contends that a one-time credit advances the rate benefits which all customers -- including CLECs -- would otherwise have received in permanent rate adjustments. AI notes that the credit itself has been developed in a manner consistent with the Merger Order's requirements. That is, it is based on actual data, it reflects the 50/50 sharing principle which the Commission adopted, and relative revenue is a concept which the Merger Order accepts for end users and IXCs. Merger Order, p. 149. AI further contends that the CLECs' objection to the credit proposal appears to stem, at least in part, from a belief that CLECs purchasing UNEs were given a preferred position under the Merger Order – that is, that they were to receive 100% of merger savings achieved in the Company's wholesale operations (and assigned to UNEs), while all other customers would be limited to sharing the remainder of the 50% overall allocation to ratepayers. AI states that this is not a reasonable interpretation of the Merger Order.

AI disputes the CLECs' contention that they are being deprived of rate adjustments that they are entitled to under the Merger Order. AI explains that the one-time credit is not being proposed as a complete substitute for updated UNE rates. AI points out that all of the parties to this proceeding expect AI to file new UNE cost studies and new UNE rates in the future. AI explains that, on a going-forward basis, the Company's TELRIC and shared and common cost studies will necessarily reflect its costs of operation and these costs of operation will include the impact of implementing merger-savings initiatives. Thus, CLECs will benefit over time from UNE rates that are lower than they would otherwise have been. AI states that the one-time credit to the CLECs could be viewed as a bridge for the period required to develop, file and litigate updated UNE cost studies.

AI points out that the Commission cannot require a significant reduction in UNE rates without impacting the credit amounts to other customer groups. If the CLECs receive more than the Joint Proposal contemplates, the portion of the credit that could be allocated to other customer groups will be smaller. AI explains that the Merger Order itself contemplates a residual approach to establishing the flow-through amount for other customers, a provision which the CLECs selectively ignore.

AI states that the CLECs have overstated the likely impact of UNE rate reductions on their business decisions. AI explains that, if the amount of merger savings allocated to the CLECs under the Joint Proposal were flowed through in rate reductions, the effect would be extremely small. AI also states that the CLECs can use the one-time credit to fund expansion of their marketing plans.

AI further contends that the Joint CLECs have not provided any evidence which would support a unilateral reduction in the shared and common cost factor. AI points out that the shared and common cost factor to which the CLECs now object was approved by the Commission based on a full record. Order in Docket 96-0486/0596, adopted February 17, 1998, pp. 47-54. AI notes that the Proposed Order in the Shared Transport Docket concludes that Ameritech Illinois complied with the requirements of this TELRIC Order relative to the shared and common cost factor and that it should continue to be used in developing UNE rates. Proposed Order in Docket 00-0700, dated February 8, 2002, p. 27.

AI argues that the CLECs are attempting to circumvent normal ratemaking processes by importing service cost testimony circulated in an Ameritech Indiana proceeding into this proceeding. AI states that it is well established that this Commission cannot borrow rates or inputs into the ratemaking process from other states or other geographic areas without a substantial evidentiary basis in this record. Wabash, C. & W. Ry. Co. v. Ill. Comm. Comm., 335 Ill. 624, 641 (1923); Union Elec. Co. v. Ill. Comm. Comm., 77 Ill.2d 364, 383 (1929); see, Atchinson, T. & S. F. Ry. Co. v. Ill. Comm. Comm., 335 Ill. 624, 641 (1929). AI further notes that the Indiana testimony will never even be considered in Indiana because the same CLECs which sought its admission into this record have successfully persuaded the Indiana Commission to strike it from the Indiana proceeding.

AI disputes the CLEC Coalition's claim that this Indiana study provides relevant information regarding merger savings. AI states that the Indiana shared and common cost study was based on calendar year 2000 actual results and merger savings in 2000 were relatively small. Furthermore, 100% of merger savings achieved in calendar year 2000 were included in the Indiana study, which, AI contends, is contrary to the Illinois Merger Order's requirements. Furthermore, AI states that the Indiana study cannot be used because all cost studies, including shared and common cost studies, are state-specific in nature. All of the cost amounts and most drivers of those costs are attributable to and/or are identifiable only to the state being studied. AI explains, for example, that uncollectibles are a significant factor in the overall level of shared and common costs. AI states that it has the highest level of wholesale uncollectibles in the Ameritech region, and Ameritech Indiana has the lowest. AI explains that this difference alone could significantly impact the cost results.

AI further states that a shared and common cost study cannot be viewed in isolation from associated TELRIC studies. As AI explains, the shared and common cost allocator is a ratio between a pool of shared and common costs (the numerator) to a pool of direct costs (the denominator). Merger-related cost changes are likely to impact both the numerator and the denominator. Furthermore, different cost assumptions underlying the denominator can impact both the absolute value of the numerator and the relational value between the numerator and the denominator. AI notes that the CLECs ignored the updated TELRIC studies which accompanied the Indiana shared and common cost study and, thus, are "picking and choosing" between the elements of the Indiana filing and bringing to Illinois only those elements which promote their economic self-interest.

Finally, AI states that the Indiana study cannot be relied upon for any purpose. Since the circulation of the Indiana study, the SBC/Ameritech service cost organization has identified revisions which need to be made in that study. According to AI, the direct costs used in the denominator were overstated and forward-looking adjustments need to be made to the direct costs to bring them into conformance with the TELRIC study results. Although only preliminary data were available, AI states these revisions were expected to increase the Indiana shared and common factor substantially.

AI states that the CLEC Coalition's alternative proposal to use the AI shared and common cost study submitted in compliance with Merger Condition (12) is also inappropriate. AI notes that this study was not introduced into this record and has not been reviewed by the Commission. Furthermore, the CLECs propose a significant adjustment to the factor based on the bare assertion in a footnote that there may have been double recovery of certain product support costs. AI contends that such an assertion does not constitute evidence and that the CLECs are mixing two different vintages of studies in any event. Furthermore, AI's shared and common cost study witness testified that he had examined the study and had found no evidence of double counting in the updated studies filed in response to the Merger Order.

AI also opposes the proposal of the CLECs that the Commission impose an absolute cap on future UNE rate changes for a five-year period. AI contends that this rate cap proposal has no place in this reopened proceeding which is directed at the merger savings flow-through obligation established in the Merger Order. AI notes that nothing in the Merger Order suggests that UNE rates would be capped after merger savings were flowed through.

AI further contends that the Coalition's proposal would also be unwise as a matter of policy and contrary to law. AI points out that its UNE rates were established in 1998, based on 1996 data. Given the relative age of the studies, AI states that it would be appropriate to revisit them in light of more current cost conditions and circumstances. AI contends that the effect of the CLEC proposal would be to completely insulate them against cost and rate changes for almost a decade (1998-2007) and that such a result is unreasonable. AI further notes that under Section 252(d)(1) of the Telecommunications Act of 1996, it is entitled to charge UNE rates that cover its TELRIC costs and a reasonable allocation of shared and common costs. AI states that it would be contrary to sound public policy and the cost-based requirements of TA96 to arbitrarily preclude it from filing adjustments to these rates.

Ameritech Illinois also opposes use of a shared and common cost analysis Staff submitted in the shared transport docket (Docket 00-0700) and supplied as an attachment to its rebuttal testimony in this proceeding. AI states that introduction of this testimony in the rebuttal phase of a very expedited proceeding was improper. AI further contends that this Staff analysis is outside the scope of this reopened proceeding. AI points out that this analysis was contested in Docket 00-0700 and these contested issues were not resolved on their merits. Ameritech Illinois states that it pointed out the numerous deficiencies in Staff's testimony in Docket 00-0700, including the fact that the model had not been introduced into Docket 00-0700 or been subjected to regulatory review; that Staff appeared to have relied on a preliminary version of the model, rather than on the finalized version; that Staff's estimates of merger related savings were being litigated in the merger savings audit proceeding and had not been resolved by the Commission; and that Staff's calculations could not be verified or duplicated. Staff is also proposing use of a shared and common cost study that has been divorced from its associated TELRIC studies. Under these circumstances, AI contends that Staff's analysis from another docket cannot be used for ratemaking purposes.

AI opposes the CLECs' growth-based allocation proposal. AI contends that the CLECs' assumption that UNE revenues will grow 100% year-over-year over the next three years is too high. If the CLECs' UNE revenue growth analysis is converted into a UNE line growth analysis, AI states that it would be provisioning more UNE loops to CLECs than retail loops to its own end users by the beginning of 2005. AI explained that, based on this analysis, CLECs would have substantially more than 45% of the marketplace by 2004, if one includes both AI-provided loops and CLEC-provisioned loops (i.e., facilities bypass). If the CLECs' growth trend is extended through 2006, AI states that it would only be a wholesale company, with no retail customers whatsoever. AI states that these are not realistic scenarios. AI further states that MCIWorldcom's attempt to impeach Ameritech Illinois' analysis during cross-examination proved nothing, because MCIWorldcom consistently divided AI's UNE revenues by line counts that included resold services and lines provided by other local service providers. AI further contends that any forward-looking projection of CLEC revenues is necessarily speculative. Growth trends based on historical data are not probative where, as here, the growth trend begins at zero (or near zero).

AI also points out that the CLEC Coalition's proposal has the effect of counting the same end users twice. If the Joint Proposal is approved, AI states that it will shortly be issuing credits to all of the eligible residence and business end users which it serves today. To the extent that the CLECs are successful in persuading these customers to switch their service to a CLEC in the future, which is what AI contends the growth data implies, these customers will have already had their share of merger savings flowed through to them. Looked at from the end user perspective, AI argues that the CLECs should not receive a higher credit today in anticipation of serving customers who will already have received a credit directly from Ameritech Illinois.

Response of GCI/City

GCI/City agree that this is not the docket to undertake a review of shared and common costs studies and related pricing elements. Although the Merger Order required revised TELRIC and shared and common cost studies, GCI/City note that the Order did not place the review of those studies in the Alternative Regulation Plan docket. GCI/City contend that the CLECs have not offered sufficient information to assess or implement the UNE rate reductions they have proposed. Further, GCI/City note that the differences between the current allocator and the Indiana-based allocator the CLECs propose are not solely due to merger-related savings and criticize the CLECs because they offer no detail on what portion of the substantial reduction they recommend can be traced to merger savings. GCI/City also recommend that the Commission reject Staff's view that a shared and common cost factor could be adopted in this docket based on Staff's testimony in ICC Docket 00-0700. They contend that a new allocator is best determined in a separate proceeding. With respect to the five-year cap on UNE rates, GCI/City contend that this docket is not the proper forum to consider such a pricing policy.

GCI/City also oppose the growth rate projections and allocations proposed by the CLECs. They explain that a growth-based allocation of merger-related savings to the different groups of customers could be appropriate only if growth rates could be estimated with reasonable accuracy. However, they point out that the growth rates in purchases of UNE and interconnection services since they were first introduced clearly are not sustainable, since the continuation of recent growth rates would quickly outpace all available demand for local telecommunications services. GCI/City support AI's view that a projected growth rate for UNE revenues over the next three years would be speculative and that the approach taken by the CLECs would have the effect of double counting the same end users.

With respect to the eligibility issues raised by McLeodUSA, GCI/City support basing the amount of credits provided to McLeodUSA on the information that McLeodUSA has provided with respect to its small business and residence customers. With respect to other resellers, GCI/City recommends that the Commission use the 13% proxy originally developed by AI.

Response of Staff

Staff supports the use of McLeodUSA specific data to determine McLeodUSA's credit allocation. With respect to other resellers, Staff states that AI should contact each carrier and obtain the number of small business customers, since it appears that only 30 carriers would need to be contacted. If the Commission believes that this is too burdensome, Staff suggests that AI be required to contact the five largest CLEC providers of resold business services in Illinois and develop a CLEC-based proxy based on the average of their customer demographics.

Staff states that it agrees that the Merger Order contemplates that UNE rates should be reduced to reflect merger-related savings through a reduction in shared and common costs and that future UNE rates will implicitly include cost reductions related to the merger. Thus, states Staff, the only disputed issue appears to be timing.

Staff states that it does not recommend that the Joint Proposal be modified to pass merger related savings to UNE purchasers through lower UNE rates. Staff states that this docket was reopened for consideration of the narrow issue of merger costs and savings. Staff notes that review of a shared and common cost study is a complex undertaking. Moreover, Staff states that any modification of AI's shared and common cost factor should be limited to changes resulting from the sharing of merger costs and savings and that the Indiana study is not limited in this manner. Further, Staff explains that AI's rates should be based on AI's costs. Staff notes that it had reviewed and adjusted the AI shared and common cost study submitted in response to Merger Condition (12) and proposed specific adjustments to reflect a reduction in shared and common costs due solely to merger related costs and savings in Docket No. 00-0700. Staff states that it is providing that analysis to the Commission in this proceeding in the event the Commission chooses to utilize it.

Staff opposes the five-year cap on UNE rates proposed by the CLECs. Staff argues that a cap on UNE rates is neither required by the Merger Order, nor is it part of the Joint Proposal under consideration in this re-opened docket. In the absence of an agreement by the parties to address it here, Staff states that the proposed rate cap is beyond the scope of the re-opened docket and should not be imposed by the Commission.

Finally, Staff opposes the CLECs' recommendation that, if one-time credits are issued based on the relative revenues of the customer groups, the revenue shares should reflect growth over the next three years. Staff states that the Joint Proposal's allocation of the credit among customer groups is just, fair, and reasonable. Further, if any future revenue growth adjustment were allowed, Staff states that it does not believe that the 100% growth factor proposed by the CLECs is reasonable. According to Staff, the Joint Movants presented convincing evidence that this growth rate is unreasonable.

AI's Motion to Strike

AI also filed a written Motion to Strike which renewed an oral Motion to Strike which AI made on February 25, 2002. AI moves to strike that portion of the CLECs' testimony which relies on the Indiana shared and common cost study and the related portions of other witnesses' testimony who responded to it. AI contends that the Indiana study is not relevant to any issue in this reopened proceeding. AI argues that the Commission reopened the record to determine whether the Joint Proposal should be adopted, not to initiate a UNE rate proceeding. Also, AI renews its arguments that the Indiana study was not undertaken to identify the impact of the merger on UNE rates and that only a small amount of merger savings were included in that study; that costs specific to another company cannot be used to set rates for AI, either under the Illinois Public Utilities Act or the Telecommunications Act of 1996; that shared and common cost studies cannot be viewed in isolation from their associated TELRIC studies; that the Indiana study will never be considered in Indiana because these same CLECs have succeeded in having the Indiana study stricken from the Indiana record; and that revisions need to be made to the Indiana study and those revisions would have substantially increased the shared and common allocator. Therefore, argues AI, the study should be stricken.

Commission Analysis and Conclusion

The Commission concludes that the Joint Proposal should be approved with only minor modifications. The Commission agrees with the parties that the Joint Proposal will benefit consumers through the issuance of one-time credits that are significant in amount. The methodology used to develop the credit is consistent with the Commission's directives in Docket 98-0555. Specifically, merger savings are based on actual data, not the preliminary estimates in the SBC/Ameritech Merger proceeding, and net savings have been allocated on a 50/50 basis between ratepayers and shareholders. The fact that there is no dispute in the record over the amount of the credit provides further support for the Commission's conclusion that it is fair and reasonable.

The Commission recognizes that the Merger Order did not specifically discuss a one-time credit mechanism to flow through merger savings. However, the Commission agrees with AI, GCI/City and Staff that one-time credits provide an alternative and reasonable resolution of the flow-through obligation. The fact that customers will see an immediate and tangible benefit from this Proposal is compelling, given the length of time that has passed since the Merger Order was adopted.

The Commission also agrees that all parties, including the Commission itself, will benefit if existing tracking, reporting, auditing and audit review requirements can be eliminated. These processes have proved to be burdensome, expensive, time-consuming and litigious, and have produced little to date in the way of tangible benefits to consumers.

McLeodUSA has raised certain issues with respect to identifying reseller lines eligible for the credit. The Commission agrees with the parties that McLeodUSA's credit should be based on the carrier-specific data which it submitted in the record. Several options were proffered by the parties on how to determine eligible business lines for resellers which did not provide their own data. The Commission agrees with AI that simplicity and ease of administration should be the key policy objectives. Based on the evidence in the record, the Commission concludes that [insert either 43% or 13%] should be used as a proxy for reseller business customers with one-to-four lines.

The Joint CLECs' proposal that the Commission use a forward-looking growth rate to allocate the credit between customer groups will not be adopted. Although revenues from

CLECs purchasing UNEs have been growing more rapidly than revenues from other customer groups, this alone is not a sufficient basis to adopt the Joint CLECs' proposed growth factor. The CLECs did not provide an adequate evidentiary basis for a 100% annual growth factor. AI argued persuasively that this assumption produces unrealistic results when extended into the future. The Commission is also not persuaded that a forward-looking factor is appropriate in circumstances where AI will likely update its UNE rates in the future, thus providing additional benefits to the CLECs. In addition, as AI points out, projecting revenues forward may produce the unintended results of double counting end users when credits are being issued currently to all of AI's existing customers.

The CLECs' proposal to update AI UNE rates based on an Ameritech Indiana shared and common cost study in lieu of the one-time credit will not be adopted. As AI pointed out, this proceeding was not reopened to reprice AI's UNEs. UNE pricing proceedings are complex and require substantial time to develop a full evidentiary record. As Staff points out, this Commission has historically set prices based on the subject carrier's or utility's own costs of operation. Thus, the Indiana cost study does not provide a basis for setting AI's rates. The Commission further agrees with AI and Staff that only merger savings should be reflected in an updated shared and common cost study for purposes of this proceeding and the CLECs did not identify what portion of the decline in the Indiana allocator was due to merger saving. The Commission is also concerned that the Indiana shared and common cost study was not introduced into the record of this proceeding where the model could be reviewed, that the study is being looked at in isolation from the rest of the Indiana TELRIC filing, and that, according to AI, the Indiana study requires revisions before it could even be used in Indiana. Based on the record, we agree with AI that the Indiana study does not provide relevant or material evidence that could be used in this proceeding and we will grant AI's motion to strike.

We will not adopt the CLECs' alternative proposal to use a shared and common cost study which Ameritech Illinois submitted in compliance with Condition (12) of the Merger Order. This study was not introduced into the record, the model has not been reviewed by the Commission and the associated TELRIC studies are not part of this record. Moreover, both the CLECs and Staff have proposed adjustments to this model. The CLECs provided no substantial evidence supporting their adjustment and it is disputed by AI. Staff's analysis was presented in another proceeding (Docket 00-0700) where it was contested by AI and the disputed issues have not been resolved in that proceeding. This record is not adequate to resolve these contested views of the study. Moreover, granting AI's Motion to Strike the Indiana study also strikes Staff's analysis, because it was presented in response to the Indiana study.

By this decision, we are not changing our conclusion in the SBC/Ameritech Merger Order that merger savings should ultimately be reflected in updated UNE rates. The issue is one of timing. This reopened proceeding is not the appropriate context in which to address complex UNE pricing issues. We agree with AI, Staff and GCI/City that the one-time credit being proposed for the CLECs is an appropriate interim measure and will not operate to deprive the CLECs of updated UNE prices in the future.

III. OTHER REQUIRED CHANGES TO THE FINAL PROPOSED ORDER

The following changes are required in the Findings and Ordering paragraphs. New findings (6) and (7) should be added after current finding (5) on page 204 of the Final PEPO and the other findings should be renumbered accordingly:

> "(6) the Joint Proposal submitted by Ameritech, the Citizens Utility Board, the Illinois Attorney General, the Cook County State's Attorney's Office and the City of Chicago

should be approved, in accordance with the prefatory portion of this Order; and Ameritech shall issue credits to customers in accordance with the Joint Proposal within 60 days of the date of this Order in full satisfaction of its obligation to flow merger savings through to its customers;

(7) as a result of the approval of the Joint Proposal, the tracking, reporting and auditing requirements applicable to merger savings as a result of the Commission's order in Docket 98-0555 are eliminated and Docket 01-0120 is hereby terminated;"

The following new ordering paragraph should be added after the third existing ordering paragraph on page 205 of the Final PEPO dealing with the CUB/AG complaint in Docket 00-0764:

"IT IS FURTHER ORDERED that the Joint Proposal is hereby approved and Ameritech will issue credits to customers in accordance with the Joint Proposal within 60 days of the date of this Order in full satisfaction of its obligation to flow merger savings through to its customers.

IT IS FURTHER ORDERED that the tracking, reporting and auditing requirements applicable to merger savings as a result of the Commission's Order in Docket 98-0555 are eliminated and Docket 01-0120 is hereby terminated."

Respectfully submitted,

ILLINOIS BELL TELEPHONE COMPANY

Louise A. Sunderland

One of Its Attorneys

Louise A. Sunderland
Karl B. Anderson
Mark A. Kerber
Ameritech Illinois
225 West Randolph Street
Floor 25D
Chicago, IL 60606
(312) 727-6705
(312) 727-2928
(312) 727-7140

CERTIFICATE OF SERVICE

I, Louise A. Sunderland, an attorney, certify that a copy of the foregoing **DRAFT PROPOSED ORDER OF AMERITECH ILLINOIS** was served on the parties on the attached service list by U.S. Mail and electronic transmission on March 25, 2002.

Louise A. Sunderland

Louise A. Sunderland

SERVICE LIST FOR ICC DOCKET NO. 98-0252/98-0335/00-0764

Philip Casey
Illinois Commerce Commission
160 North LaSalle Street, Suite C-800
Chicago, IL 60601-3104
pcasey@icc.state.il.us

Jack Pace
City of Chicago
30 North LaSalle Street, Suite 900
Chicago, IL 60602
jpace@ci.chi.il.us

Patrick N. Giordano
Giordano & Neilan, Ltd.
333 North Michigan Avenue
Suite 2800
Chicago, IL 60601
patrickgiordano@dereglaw.com

Calvin Manshio
Manshio & Wallace
4753 North Broadway Avenue
Suite 732
Chicago, IL 60640
calpeg@worldnet.att.net

Henry Kelly
Joseph E. Donovan
O'Keefe, Ashenden, Lyons & Ward
30 North LaSalle Street, Suite 4100
Chicago, IL 60602
hkelly@oalw.com
jedonovan@oalw.com

Owen E. MacBride
Terri Brieske
Schiff Hardin & Waite
233 South Wacker Drive
6600 Sears Tower
Chicago, IL 60606
omacbride@schiffhardin.com
tbrieske@schiffhardin.com

Robert J. Kelter
Citizens Utility Board
208 South LaSalle, Suite 1760
Chicago, IL 60604
rkelter@cuboard.org

Matthew L. Harvey
Illinois Commerce Commission
160 North LaSalle Street, Suite C-800
Chicago, IL 60601
mharvey@icc.state.il.us

Eve Moran
Illinois Commerce Commission
160 North LaSalle Street, Suite C-800
Chicago, IL 60601
emoran@icc.state.il.us

John E. Rooney
Sonnenschein Nath & Rosenthal
800 Sears Tower
233 South Wacker Drive
Chicago, IL 60606
jrooney@sonnenschein.com

Michael Ward
Michael W. Ward, P.C.
1608 Barclay Blvd
Buffalo Grove, IL 60089
mwward@dnsys.com

Dennis Muncy, Joseph Murphy
Matt Deering
Meyer Capel
306 West Church Street
P.O. Box 6750
Champaign, IL 61826
dmuncy@meyercapel.com
jmurphy@meyercapel.com
mdeering@meyercapel.com

Allan Goldenberg, Mark N. Pera,
Marie Spicuzza, Ann Bloss
Environment & Energy Division
Cook County State's Attorney's Office
69 West Washington, Suite 700
Chicago, IL 60602
agolden@cookcountygov.com
mpera@cookcountygov.com
saopib@wwa.com
abloss@cookcountygov.com

Cheryl Urbanski Hamill
AT&T Communications
222 West Adams Street, Suite 1500
Chicago, IL 60606
chamill@att.com

Darrell S. Townsley
WorldCom
205 North Michigan Avenue
11th Floor
Chicago, IL 60601
darrell.townsley@wcom.com

Peter Nyce, Jr.
Department of the Army
Office of the Judge Advocate General
901 North Stuart Street
Arlington, VA 22203
peter.nyce@hqda.army.mil

Susan L. Satter
Assistant Attorney General
100 West Randolph Street, 11th Floor
Chicago, IL 60601
ssatter@atg.state.il.us

Brian Rankin
XO Illinois, Inc.
303 East Wacker, Concourse Level
Chicago, IL 60601
brankin@nextlink.com

Clyde Kurlander
Lindenbaum, Coffman, Kurlander
Three First National Plaza
70 West Madison Street, Suite 2315
Chicago, IL 60602
ckatlantis@aol.com

Richard M. Rindler
Swidler Berlin Shereff & Friedman
3000 K Street NW, Suite 300
Washington, DC 20007
rmrindler@swidlaw.com

David Woodsmall
MGC Communications, Inc.
3301 North Buffalo Drive
Las Vegas, NV 89129
gwoodsmall@mgcicorp.com

Kent F. Heyman
MGC Communications, Inc.
171 Sully's Trail, Suite 202
Pittsford, NY 14534
kheyman@mgcicorp.com

Carol P. Pomponio
XO Illinois, Inc.
303 East Wacker, Concourse Level
Chicago, IL 60601
cpomponio@xo.com

Stephen D. Minnis
Sprint Communications
6450 Sprint Parkway
Overland Park, KS 66251
steve.minnis@mail.sprint.com

Thomas Rowland
Rowland & Moore
77 West Wacker Drive
Suite 4600
Chicago, IL 60601
r&w@telecomreg.com